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MONEY, BANKING, ETC.

To the Senators and Members of the House of Commons of the Dominion.

As the declared policy of the Government is, "Canada for the Canadians"; it is a fitting time that a proper monetary and banking system were inaugurated, to place the prosperity of the country on as sound and permanent a footing as the present mode of buying and selling will permit.

Advocates of a national paper money have not carried the weight they should because they have not exposed the iniquitous principal in banking which prevails throughout the commercial world, that is, pledging a thing more than once, a principle scouted as to other matters, and yet where it can work immeasurably most mischief, it is allowed to prevail.

To show its enormity and to get out of the usual rut of thought on the subject, let us bank not with money but with flour and wheat. The warehouseman of flour and wheat issues his receipts (which are promises to deliver on demand) for flour and wheat deposited with him. On account of the exigencies of some of his customers he is induced to do more than this, he issues receipts on what he thinks will not likely be called for, perhaps three or four times, receipts to deliver on demand what in truth he has not got, on his receiving an undertaking from the receivers that they will deliver the amount some future day.

So long as the public have faith like that of a little child, things run on smoothly enough. An occasional "bust" may take place, but then every one knew that it would, the veriest simpleton ought to have known it. The childlike faith becomes shaken, and on the next rumors of a shaky warehouseman things are made hot for him. He calls on his fellow warehousemen and impresses upon them the necessity for their own salvation, to combat the prevailing infidelity, so an announcement is made declaring the shaky one sound, and that the others are willing to receive his receipts to deliver on demand. This quiets matters just then, but as there is an urgent demand for flour and wheat, infidelity grows apace, till, becoming general, a rush is made. The warehousemen hold a meeting, and a general suspension is agreed upon. Then those who have given notes payable in flour and wheat catch it. At great cost they have to send abroad for flour and wheat to make their promises good. Those of small means are ruined. Insolvency clears the rest. After the general wreckage the warehousemen write

off a pile for bad and doubtful debts. Some are so weakened they coalesce with others to incite confidence again.

The warehousemen of money deal in the undertakings of the warehousemen of flour and wheat and not caring to exercise a child-like faith in allowing the latter to bank, but preferring the exercise of a manly faith, they get laws passed subjecting the flour and wheat man to three years penitentiary when he issues a promise to deliver on demand what he has not got. The consequence of the law is, there is never any panic about warehouse receipts, the public knowing that when the flour and wheat is wanted it is there.

Did warehousemen of flour and wheat bank as those of money do, they would occasion great ups and downs in the flour and wheat market, but their practices would effect little else than flour and wheat; but those treating money in the same way making it cheap at one time and dear at another, periodically upset the whole business of the country. If, therefore, the flour and wheat man deserves three years penitentiary for issuing a promise to deliver on demand what he has not got, the banker when he does the same thing, on account of the wide-spread misery he occasions, ought to be sent to the penitentiary for life.

Formerly the Kings of England who attempted to tamper with the money of the country by alloying it, were threatened dethronement, and although banks by their expansion virtually do the same thing several hundred per cent., it has been tolerated, because their action on money is subtle and it has been countenanced by writers on political economy even of the stamp of John Stuart Mills. McLeod, a recent writer of two large volumes on money and banking puts the point distinctly when he says: "The whole Art and Genius of banking consists in forming a sound judgment *as to how many different parties the same identical capital may be pledged?*

The pledging money more than once by banks is the cause of the agonies this country in the dark suffers, upsetting the calculations of even veterans in business. Having thrown light upon this matter, I call upon every business man, I call upon every working man, to rise in a solid body, put their foot down on this principle in banking and crush it. If they do not I shall be forcibly reminded of the old woman and the eels. "Hurt them! Bless your soul, sir, I have skinned them these last forty years; they are accustomed to it."

The proper office of banks is simply to lend their own capital, borrow money and lend it, taking care the loan on their part falls within the terms of their borrowing, facilitate exchanges, and hold money on deposit.

When banks deal in money only, there is no need of liabilities without money in reserve against them. With this reserve loans are released from all restraint. The following account serves to illustrate this method of banking.

$1,000,000, proprietors capital paid in money.
5,000,000, borrowed on stipulated terms.

Loans at discount and in exchange dealings, say seven per cent. per annum,		$420,000
CONTRA.		
Interest on $5,000,000 borrowed at five per cent per annum	$250,000	
Loss of interest on $40,000 money in reserve at seven per cent	2.800	
Rent $1.500—salaries $9000.....	10,500	
Bad debts one-fifth of one per cent, say	12,000	
Contingencies	4,700	
		280,000
Dividends on proprietors capital fourteen per cent per annum		$140,000

With such an ample capital mentioned, a bank might borrow several times the amount of their capital. Their money would be constantly employed either as money ; or in checks ; or certificates of deposit, with money in reserve, dollar for dollar, such reserve would be a special deposit without interest. The institution would be an honest "money bank" dealing in capital, getting money before loaning it.

Were the Government to settle that six and a half millions of gold dollars were sufficient money for the carrying on the business of the country, provided that they alloyed it sufficiently, to make it pass for sixty-four millions or more or less, according to their views of the necessity of business, or rather as their own interests were affected ; it is clear all credit must be at an end, for whatever a contract might mean to-day no one could predict what it would mean to-morrow. It is on account of such an uncertainty all civilized nations have denied to Governments, for the purpose of making more money, the right of altering or in any manner interfering with the purity of coin as established by law.

Instead of alloying the coin itself, suppose the Government were to hold the six and a half millions gold, and were to issue eight or nine times as many promises to pay it on demand, and attempted to preserve that relation always between the promises to pay and the actual money, the uncertainty of the nature of contracts would be affected precisely in the same way as when the coin itself was alloyed in different degrees, for as the imports and exports overbalanced each other contractions and expansions of the currency would take place.

As regards Canada, the above case of pledging gold several times is not a supposed case, for what the Government does not itself do, it authorizes banks to do. Taking the statement of the bank returns for December last, we find their liabilities to pay gold on demand, reach about sixty-four millions of dollars ; this includes the notes they issue, the money of the people, and the deposits payable on demand, the money of merchants and manufacturers. The deposits (not those on time, which strictly are loans) are as much the circulating medium of banks as the notes they issue, for a holder can check upon them and demand gold. They are by far the larger portion of the circulating medium, of banks, being three or four times the amount of their notes.

Many writers on the circulation of banks overlook this. The six and a half millions gold is virtually alloyed to the extent of sixty-four millions, and when banks are called upon for gold on the imports largely exceeding the exports, the contraction that necessarily ensues, throws the business of the country into difficulties, frequently wiping out the value of assets which were expected to more than meet liabilities.

The functions of money are so interwoven with the affairs of men, that its stability and uniformity of value is almost as essential to their prosperity as is the establishment and maintenance of the right of property itself. A country, consequently, ought to have a measure of value of the best possible kind; that is, money that will not be cheap at one time and dear at another; that will not be abundant at one time and scarce at another, like the product of the herring fishery, but that will be uniform in quantity and therefore, uniform in value. This is to be attained only by a country having money peculiarly its own, that will not circulate in other countries on account of its greatest value being at home, issuing it on well defined principles, and not allowing it to be tampered with, either by counterfeiting or being pledged more than once.

Money is that which is made legal tender and it is money only in the country so making it. The sovereign is money in England, on the Continent it is only so much gold, a commodity, and is sold for money required there. Money should be purely money, if it partakes of the nature of a commodity it is liable to be used as such, thereby destroying so much of *the volume of money* (the measure of value).

Gold and Silver have generally been used for purposes of money, because they are objects which are supposed to *fluctuate less in quantity* than any others, but, independent of the effects of the late discoveries on these metals, the action of one country on another in withdrawing and replenishing the store is attended with very pernicious consequences. A country ought to conduct its affairs in a way to be affected as little as possible by any action of a foreign country. When England raises her rate of discount it is felt in all parts where gold is used for money. To avoid this is one of the advantages of a country having money peculiarly its own.

To move the crops of the country it is said an elastic currency is necessary. What is the plain English of this? If a currency of Indian-rubber is meant, that it will be elastic can be understood; but, if two dollars gold is to be made out of one dollar, that is an enigma. If on one dollar gold there are issued half a dozen promises to pay it on demand, the first man that comes gets it, then there is trouble with the rest. Instead of such a proceeding as the last, which is really what is meant by an elastic currency, the circumstances of the case are to be met *by rapidity of circulation*, that is, banks by their offers must prevent the stagnation of funds in the hands of private persons.

Money being simply that which is made legal tender, it is clear Government can make its own money, and were it to do so its value would depend upon the quantity issued. As there is nothing to be gained in altering prices, except a

sinister purpose is intended, the volume of alloyed money we have been using might be taken as a basis as to the quantity to be issued. This comprises, as before said, the deposits payable on demand, and notes of banks, amounting to about fifteen dollars per head of population. Should this suffice, or ought more be issued? We see money so abundant in England that it commands only one or two per cent. The high rate of interest in this country draws the very life blood out of its bone and sinew. To stay this, Government should issue money to an extent that interest might not be higher than four per cent. a year. Usurers might protest, but as they are do-nothings, what matter. Instead of fifteen, twenty dollars per head of population might be issued, instead of sixty, eighty millions of dollars.

On this point, all the information that can, should be elicited. Possibly by the issue of sixty millions of real money and doing away with the issue of the promises of banks, bank debt, issued on individual indebtedness, and, therefore, called a debt currency, the rate of interest might fall to the desired point. During the Napoleonic wars when England suspended specie payments, it is stated that the rate of interest of the Bank of England was uniformly four per cent. I have no means of verifying the statement, or of knowing, were such the case, by what principle the Bank was guided.

Advocates of National Money dwell principally on its advantages to carry out public works or to reduce the public debt. These are incidents of such a currency, its main feature is overlooked. The country requires a contrivance by which business can regulate its proceedings with some degree of certainty. A farmer who borrows five thousand dollars on a ten thousand dollar farm, wants always to feel that he has five thousand dollars at his back; the merchant that his assets are what he sets them down at. This would generally be the case were the volume of money to remain always the same. The measure of value in present use is one that constantly varies, an infernal machine, that often occasions wide spread destruction, supplied by banks. It is the duty of Government to step in and provide one of the best kind. If, in so doing, it is placed in funds, then may arise the question what to do with them. If it has no use for them, the money should be loaned on good securities, as a private individual would, to any one requiring it, Government receiving interest therefor.

The advantages arising from the adoption of the measure of value proposed, are many. The business of the country would not be subjected to the fluctuations that it is at present; its progress would be steadily onwards. The Government would be placed in funds to execute undertakings or reduce the public debt. The increase of population would be a direct source of income, as would the loss by fire or otherwise of its notes, no small item, and which, properly, should enure to the public. The notes placed on the same security as the bonds of the country, namely, the good faith of the Government and the resources of the country, would be received without doubt or question; and, for carriage, would be infinitely preferred to a lot of dead weight in the shape of metalic money.

Having a measure of value of our own would put a fence round the country, and, considering the white slavery of various degrees of severity existing in different counties, that is very desirable. A correspondent of the *Times*, describing his visits among the agricultural classes in England, said "that some placed marbles of dough in the boiling pot and they came out the size of cannon balls, that these were slicked down with the faintest notion of something sugary." Such a dietary reminds one of the cobbler's cat that was fed with wind and water. A light diet like this is not palatable to the working classes of this country. Their standard of comfort is higher; they therefore very naturally object to placing their labor in competition with the low type of slavery in England. Free trade in the present abnormal state of society, is simply nonsense. Indeed, most of what is written on Political Economy is the same. It has been so regarded by some Universities in the United States, which have done away with the chair, very properly objecting to their sucklings depending as they necessarily must do, much on authority, imbibing false views, though supported by old and familiar names; the "old fathers" of political economy, but who in point of time of the world's progress and intelligence may be regarded simply as "the infants."

It is thought that the Government could not disburse the amount proposed, and that its issue would restrict foreign commerce. On looking over the border one cannot fail seeing the facts staring one in the face, that the Greenback is eagerly taken by the people and is preferred to any other money, and that its use does not restrict foreign commerce, for English merchants complain the Americans are superceding them in the markets of the world.

These views have been placed before different Governments and the only one that acted strictly upon them was the French Government. By their adoption they were enabled to pay without any difficulty 120 of the 200 millions stirling, imposed by the German on the French nation, and to recuperate in a way that has astonished the world. Much surprise has been expressed that they kept their paper money at par with gold, the fact is, they have not allowed banks to tamper with it, to alloy it, by oftentimes pledging it. It may here be said that whether the paper dollar commands two of gold or only half a one, is of little consequence, provided, that having established its relation to things generally, the paper dollar itself is not tampered with by over issues, contractions, counterfeiting or pledgings more than once. The French Government has accumulated some eighty millions stirling, which has been for some time locked up, but which it is believed is to be used this year for the resumption of specie payments; for the requirements of the exchanges of the country it might as well be at the bottom of the sea.

The Greenback in the United States has been shamefully abused by the Government and by the banks of the country. Even now, because business is reviving, after the great prostration occasioned by a severe contraction of the currency, a syndicate of Bankers in New York have settled that

they can foist upon the people an additional fifty-four millions of theirs purious promises to pay gold, and when it is considered that this issue will increase the ledger credits of banks, the money of merchants and manufacturers very materially, some 150 millions of alloy will be introduced into the currency.

Our neighbours have been importing large amounts of gold. What they were going to do with it puzzled one. It has puzzled the Government. Attempts are now being made to compel the people to take it, notwithstanding their aversion to it. The only ones who have manifested any desire for it are hoarders.

RAILROADS.

Having ample funds the Government might devote them to constructing, leasing or purchasing the railroads, they to be run simply to pay expenses.

The railways being the highways of the country should be in the possession of the government for the common benefit. It has been computed that the United States people pay a a tax of one hundred and twenty-five millons of dollars a year for transportation beyond the cost price. Assuming the people of this country pay in the same proportion, our tax would be twelve and a half million dollars a year. Whatever operates as a tax on locomotion is inconsistent with the highest principles of state policy. It is not enough that there should be freedom of thought, free movement of the people themselves is of equal importance. It is the true method of combating climatic influences, preventing communities from falling into mental torpor and contracting senseless antipathies.

There is a popular apprehension of being overgoverned, being overtaxed which has much to do with the general abandonment of certain governmental duties by the ruling powers of most modern states. It is theoretically the duty of government to provide all those public facilities of intercommunication and commerce which are essential to the prosperity of civilized communities, but which individual means are inadequate to furnish and for the due administration of which individual guarantees are insufficient, Hence public roads, canals, railroads, postal conveniences, the circulating medium of exchange, armies, navies, being all matters in which the nation at large has a vastly deeper interest than any private association can have, ought legitimately to be constructed and provided only by that which is the visible personification and embodiment of the nation, namely: its legitimate head. Doubtless, the organization and management of these institutions by Government are liable, as are most things human, to great abuses. The multiplication of place-holders which they imply, is a serious evil. Yet the corruption thus engendered, foul as it is, does not strike so deep as the rottenness of private corporations. Official rank, position and duty have, in practice, proved better securities for fidelity and pecuniary integrity in the conduct of the interests in question, than the suretyships of private corporate agents, whose bondmen so often fail or abscond, before their principal is detected.

In 1874 Switzerland the oldest republic of the world adopted a constitution whereby it became a federal government of sovereign power over several subjects of general concern, amongst others, railways, thus placing on record the fact that a republic has recognized the necessity of taking public charge of general transportation to prevent its being a means of extortion on the part of private companies. England that has fully shared the American prejudice against governmental intervention, has given the corporation system a very thorough trial and the facts elicited before the parliamentary committee of 1872 proved amongst others the following:—

1st. Excessive rates compared with the cost of conveyance.

2nd. Exorbitant rates imposed upon some places in comparison with others.

3rd. The failure in promoting competition by lines having separate interests.

The government of Victoria Australia as well as that of Belgium, have assumed the control of the railways for general purposes to the great satisfaction of the public. Belgium particularly has proved railways can be well managed by public officers. All persons employed on railways are precisely on the same footing as regards their salaries and pensions as other persons in the civil service. Appointments are made on the competitive system. There is a director general and three principal divisions, each with a separate head, the locomotive, the permanent ways and works and the traffic department, and two additional divisions, one for the accountant and the other for stores and general matters.

Should government think that undertaking the management of all the railways of the country too large an undertaking to start with, they should at least possess the trunk lines leaving the branches to be controlled by the authorities of the territory in which they lie. The existing practice in countys, townships, towns and cities is for the local authorities to establish and control the roads and streets, because this is conceived to be most conducive to the public interest; but as soon as ties and rails are laid down and a particular vehicle required to run on them, bonuses, nearly the legitimate costs of the roads, are given to private parties who will guarantee the construction of the road, and who will charge exorbitant rates when completed.

This has been the experience of this country and it does seem preposterous that our main lines that have been so munificiently endowed by public grants, should be mostly concerned in carrying our neighbours product from the far west to the east, a matter of little interest to us, while our own products have lain at our doors awaiting transportation and when moved are done so only at exorbitant rates.

That our railroads should be run at cost price for the common benefit must become as burning an economic question, as that of having our own measure of value.

W. ARNOLD.

TORONTO, *March* 1880.

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